

Clearing *the air*

A case
for cost-cutting

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Needed:
your ideas

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West's HealthCheck
a "pressure-packed"
experience

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Engineer Ingram
developing cutting-edge
technology

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TVA's air emissions have been accused of being a 'public nuisance' in North Carolina. Yet, as the result of TVA's clean-air efforts, the air is cleaner than it's ever been.

Chairman Bill Baxter has traveled the Tennessee Valley speaking to the media and communities to clear the air on TVA's clean-air record — an exemplary one at that.

Fact: Since 1977, TVA has reduced sulfur-dioxide emissions on its system by 80 percent by shifting to lower-sulfur coal and installing SO₂ scrubbers on its larger units.

Fact: Since 1995, TVA has reduced nitrogen-oxide emissions on its system by 80 percent during the ozone season by improving combustion processes and installing low-NOx burners and state-of-the-art selective catalytic reduction controls.

North Carolina's Attorney General Roy Cooper filed a lawsuit on Jan. 30 in the U.S. District Court for the Western District of North Carolina asserting that the emissions from TVA's 11 coal-fired plants in Tennessee, Alabama and Kentucky are creating a "public nuisance" in North Carolina by adversely affecting the state's air quality.

"Emission data published by the Environmental Protection Agency clearly shows that the largest contributors to air pollution in North Carolina are its own utilities, other plants and motor vehicles, not TVA," Baxter says.

"North Carolina utilities now emit

more sulfur dioxide than every other state in the southeast except for Georgia, where TVA has no plants. They emit more SO₂ than utilities in Alabama and Kentucky, where TVA and other utilities have plants and twice as much as Tennessee, where seven of TVA's plants are located."

Baxter says TVA has been steadily reducing emissions from its plants for years.

"In 1977, TVA installed its first SO₂ scrubber on Widows Creek Unit 8. TVA now has scrubbers on six of its large units and upgraded its first scrubber in 2004,"

See "Clearing the air" on page 3

Inside TVA online

TVA extends reliability services into Oklahoma

The TVA Reliability Coordinator Area has extended its coverage into Oklahoma due to Associated Electric Cooperative Inc. expanding its boundaries.

As a Reliability Coordinator, TVA is responsible for helping ensure the reliable operation of the transmission system in the area, in accordance with North American Electric Reliability Council standards.

On Feb. 22, KAMO

Power's load and transmission facilities in Northwest Oklahoma — which includes 826 miles of transmission lines and 370 megawatts of load — were transferred from the Grand River Dam Authority Balancing Authority Area to AECL.

KAMO also has load and transmission facilities in Southwest Missouri, which already were part of the TVA Reliability Coordinator Area.

Since TVA provides reliability coordination services for

AECL, the TVA Reliability Coordination Area now includes KAMO's Northwest Oklahoma service area, making Oklahoma the 11th state in the TVA reliability footprint.

In addition to the TVA service area, TVA's reliability-coordination services are accountable for the safe and reliable operations of the electric grid of AECL, Big Rivers Electric Cooperative, East Kentucky Power Cooperative and Electric Energy Inc.

TVA also is one of only 17 Reliability Coordinators in North America and operates within the Southeastern Electric Reliability Council region, which includes 50-plus member companies.

For more information on TVA's role in the North American Electric Reliability Council and SERC, as well as a map of the TVA Reliability Coordinator Area, see the February *Inside TVA* in the Retirees section on www.tva.com.

what's new in employee news

Expense Reimbursement, ePay applications available remotely

Employees now can remotely access Expense Reimbursement and ePay without VPN (Virtual Private Network) or dial-up connectivity.

These applications are in addition to Outlook Web Access, which was made accessible from remote sites last August.

To access these applications from a remote site, employees should type in <https://my.tva.gov> and select LOGIN at the bottom of the page.

Users will be prompted for their TVA Windows User name and Password. This will launch the new external site.

To launch ePay or Expense Reimbursement, users should first click on the desired application link, which will bring up the same log-in screen they see from TVA's internal Web site. They will be prompted for their Employee ID and four-digit PIN, after which they should click Login.

Anyone with questions should call the ITSC at 751-4357.

Inside TVA

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Bull Run, **Mary Henderson**
Colbert, **Susan Shedd**
Cumberland,
Barbara Williams
Gallatin, **Kriste Lanus**
John Sevier, **Norma Cato**
Johnsonville, **Glenda Killen**
Kingston, **Theresa Long**
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Widows Creek, **Linda Mann**

RIVER SYSTEM OPERATIONS & ENVIRONMENT:

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Technology Applications,
Terry Johnson
Environmental Stewardship &
Policy, **Warren Behlau**

NASHVILLE: **Phil Ivey**

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TVA also ensures that the
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TVA financial assistance are
available to all eligible persons,
regardless of race, color, sex,
national origin, religion,
disability or age.*

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page — www.tva.com.



Cost-cutting needed for successful year

The TVA Board approved a 9.95 percent firm wholesale rate adjustment Feb. 13 to offset some of the recent increases in the cost of fuel and purchased power, which have gone up faster and higher than anyone expected.

This rate increase will provide about \$276 million — only a little more than half the additional cash TVA will need in fiscal year 2006.

In the revised budget presented by Chief Financial Officer Mike Rescoe, TVA will reduce its cash reserves by \$113 million.

“As part of the rate adjustment, we committed to reducing our FY 2006 cash expenditures by about \$130 million,” President & Chief Operating Officer Tom Kilgore wrote in a letter to employees. “With the rate increase, our customers are shouldering much of the cost burden, and we must do our part, as well. You know the work of TVA better than anyone else, so I am counting on your support and your good ideas.” (See story below.)

Balanced scorecard reflects challenges

For the January TVA Balanced Scorecard, Asset Availability showed some improvement, while the Productivity measure lost ground.

Availability of the combustion turbines and Raccoon Mountain Pumped-Storage Plant have temporarily offset the unavailability of some fossil and nuclear units. The question will be whether these units can avoid further unplanned events.

Overall productivity is unfavorable versus plan primarily because of low sales asso-

Winning Performance

TVA Balanced Scorecard for January 2006

	Weight	Status	Actual YTD	Plan YTD	Year-End Forecast	Target	G O A L S	Mid	Stretch
Financial									
• Net Cash Flow (\$ millions)	20%	↓	(164)	(29)	(48)	394		456	548
• Financial Strength/Reduction in Total Financing Obligations* (\$ millions)	15%	↑	(113)	55	340	340		420	500
• Productivity (kWhs Delivered/Total Labor Cost)	10%	➡	92.7	97.7	90.2	93.0		94.8	96.7
Customer									
• Customer Impact (CPI+CSS)**(%)	10%	↑	112.9	100	100	100		101.7	108.1
• Economic Development (index)	10%	↑	152	100	100	100		110	120
Operations									
• Asset Availability (GWh Available/GWh Planned)	15%	↑	99	100	100	100		101	102
• Environmental Impact *** (index)	10%	↑	71	60	67	67		61	56
People									
• Safe Workplace**** (Recordable injuries/hours worked)	10%	↓	1.18	1.82	1.82	1.82		1.64	1.55

* To maintain continuity, the original performance measure name of Financial Strength is referenced with the new name, Reduction in Total Financing Obligations (TFO).

** CPI=Connection Point Interruptions and CSS=Customer Satisfaction Survey. Actuals reported quarterly.

*** Actuals are reported quarterly.

**** Includes TVA and staff-augmented employees; hearing events are excluded. Any TVA employee or staff-augment-

Status:

↑ = Forecast at or better than Target

➡ = Forecast worse than Target, but recovery is possible

↓ = Forecast worse than Target, and recovery is unlikely

ed contractor fatality or permanent total disability will prevent payout for this indicator at the TVA level as well as the affected SBU/BU.

This scorecard has been posted on the Winning Performance section of TVA's internal Web site.

ciated with the unseasonably warm weather in January. Generation is down due to warm weather and lower rainfall.

“Meeting these challenges will be an

indicator of how good we really are,” wrote Kilgore. “I know it will not be easy, but I know we will all do what’s necessary for TVA’s long-term viability and success.”

Kilgore establishes teams to lead Cash-Reduction Initiative

President & Chief Operating Officer Tom Kilgore has established four cross-functional teams to lead

the initiative to meet TVA’s cash-reduction target of \$130 million in fiscal year 2006.

Employees are invited to share their suggestions on how TVA can best reduce cash expenditures to help offset some of the extraordinary increases in costs of fuel and purchased power.

The deadline for employees to provide input is March 10.

The areas to be targeted by the teams and the leaders of each one are as follows:

Capital Projects — David Hall, vice president of Electric System Projects

Operation & Maintenance Projects (includes Outage O&M) — Ed Freeman, vice president of Fossil Operations

Staffing (including contractor-staff augmentation) — Phil Reynolds, vice president of Human Resources

Working Capital/Financial (includes inventory, accounts payable/receivable)

— Paul LaPointe, senior vice president of Procurement; and Randy Trusley, vice president & controller.

“These are the four major places where we will have to postpone work or ‘scrimp and save’ to meet our goal,” says Kilgore. “The task of each team is to identify opportunities in the area designated, rank the recommended cash reductions and identify specific actions that need to be taken.”

To help cut costs in Operations & Maintenance and Capital Projects, teams will look for work that can be cancelled or delayed. In Staffing, there will not be a hiring freeze, but hiring will be restrictive.

The Working Capital and Financial team will look at inventory replacements and increases, potential investment transactions and any other financial instruments, with an eye toward finding additional cash.

“I further expect that organizations will continue to identify

How to submit suggestions

Employees can e-mail their suggestions for cash reductions in any of the four specified areas.

All employee suggestions will be considered by the teams. However, individual replies regarding resolution of employee suggestions cannot be provided.

Here are the names of the e-mail boxes for each of the teams as they are listed in the Outlook address book:

Cash Reduction Team — O&M Projects — crtompro@tva.gov

Cash Reduction Team — Capital Projects — crtcapro@tva.gov

Cash Reduction Team — Staffing — crtstaff@tva.gov

Cash Reduction Team — Working Capital/Financial — crtwcafi@tva.gov



Browns Ferry Chemistry Supervisor John Underwood (right) walks through Browns Ferry with Tom Kilgore during a recent review of the work in progress to restart the Unit 1 reactor. Underwood is one of 10 employees recently honored by EPRI for their accomplishments in various research-and-development initiatives and projects for 2005.

cost reductions in areas not covered by one of these four teams,” Kilgore says.

ACROSS TVA



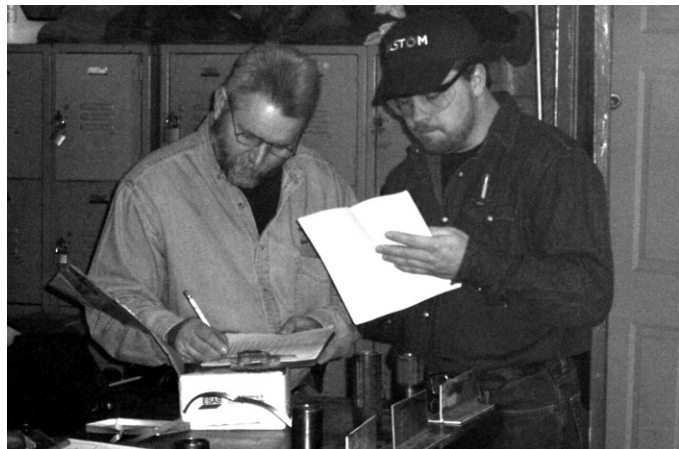
Learning about careers

TVA Partners In Education coordinators Vyrone Cravanas, manager, Employee Relations & Diversity, and Angela McClure, management assistant in Corporate Safety, provided a fun, learning exercise for students at Christenberry Elementary School during its annual Career Day in February. McClure and Cravanas used a unique spinning-wheel game to teach the children about TVA and its many different career opportunities. TVA's PIE program reaches schools across the Tennessee Valley.



Winning — drug-free

Colbert Fossil Plant's Partners In Education Committee member Travis Tucker talks with Cherokee High School athletes at a Performance Enhancing Drug Use in Sports program. His presentation for 60 student athletes is an extension of a paper he is writing for a master's in business administration degree. Tucker is a Fossil Electrical Tech Trainee. In addition, Colbert PIE members Joel Love and Candy Vaden presented the CHOICES program to 90 Cherokee Middle School 8th-grade students last month. The event was co-hosted by the Shoals Chamber of Commerce and *The Times Daily* newspaper. CHOICES is an interactive workshop designed to help middle- and high-school students realize they can take charge of their lives.



Rating for perfection

Widows Creek Fossil Plant Mechanical Multi-Skill Tech Ills Robert Wayne (left) and Rob Padgett judge students' welds at a regional welding-skills contest at the Earnest Pruett School of Technology in Hollywood, Ala. This is the third year Widows Creek has assisted the tech school. Last year, the plant provided an instructor. A similar request has been made this year for the statewide welding contest. The tech school has been the location of machine-shop training for the Multi-Skill Maintenance Program. Many of the students will continue their training and become welders in local industries, including TVA.

Clearing the air

continued from page 1

says Baxter. "Our seventh scrubber on Paradise Unit 3 should start operations later this year."

Director Skila Harris says TVA is proud of employees' accomplishments in the area of air-emission control.

"Work is under way on a scrubber at Bull Run Fossil Plant, which should go into operation in 2009," she says. "This is another great example of TVA's investment to further improve regional air quality."

TVA also has greatly reduced nitrogen-oxide emissions with the installation of SCRs on 60 percent of its plant capacity.

North Carolina adopted the Clean Smokestacks Act in 2002, which has given the state's utilities additional motivation to reduce emissions.

"North Carolina started operating its first scrubber just a few weeks ago on one of the smallest units in the state," Baxter says. "North Carolina will



The scrubber for Paradise Fossil Plant Unit 3 will be one of the world's largest scrubbers and will remove up to 98 percent of the sulfur-dioxide emissions from the 1,060-megawatt unit. Annual emissions from Unit 3 will be reduced by more than 60,000 tons.

begin to catch up with TVA. By then, EPA's new rules will quickly be carrying TVA and North Carolina utilities beyond the requirements of the Smokestack Act."

He says cutting pollution from TVA plants makes good business sense.

"As a result of our efforts over the last nearly 30 years, the air is cleaner now in the Tennessee Valley, including western North Carolina, than it has been in any other time in our lives, and it will continue to get better throughout this decade and beyond." — THERESA HABIGER

HealthCheck puts focus on health

Jim West says he was sitting in his office one day when one of those *TVA Today* reminders to participate in TVA's HealthCheck program popped up on his screen.

"It was late June, and the initial sign-up period was scheduled to end in July," says West, senior manager of Residential & Small Commercial Products & Services in Customer Service & Marketing. "I was also about to celebrate my 50th birthday, so I decided it was time to become better informed about my health."

Since moving to Nashville seven years ago, West had been to a doctor only once for a sinus infection.

"I really had no information about my health," he says. "I just knew I hadn't been sick, except for this one minor problem."

West was shocked to find out during his HealthCheck screening that he had high blood pressure.

"My blood pressure had been 110/70 for years," he says. "But at the HealthCheck screening it was 156/108. I was about ready to go on vacation, so I decided to wait and check my blood pressure again when I came back. Well, going on vacation didn't fix the problem. I still had high blood pressure on my return."

West now regularly sees a doctor in Nashville and is taking blood-pressure medication. He also has improved his diet and has begun walking several miles a day.

"The problem kind of snuck up on me. I was eating a lot of processed foods, which are high in salt, and I had quit walking several years ago. I never had a weight problem, so I mistakenly assumed I was okay."



Jim West takes his blood pressure in his Nashville office. Because of his HealthCheck screening, he is taking better care of his health by taking blood-pressure medication, has improved his diet and walks several miles a day.

He says participating in HealthCheck has helped him focus on his health.

"The online resources and interventions provided through HealthCheck helped me make better diet choices. I now know what kind of foods can lead to hypertension."

West says he also was surprised to see how quickly he was able to lower his blood pressure. And he adds that the recommended interventions are very doable and painless.

"I'm glad I participated in the HealthCheck program. It has enhanced my overall awareness of what I can do to maintain good health. I recommend it to everyone, and I really can't think of any reason not to take advantage of what the program offers." — THERESA HABIGER

WINNING
thoughts

We make a living by what we get, but we make a life by what we give. — Winston Churchill

INSIDER

Innovative Ingram named top engineer

SuperVar, phasor measurement, ultra capacitors. Ingram's projects are not household words, but they are enabling industries and power-distributor customers to obtain reliable power that ultimately will decrease their costs of electricity.

Making a difference in the power-transmission world is what electrical engineer Mike Ingram is all about. And it has earned him the honor of being named TVA's Ike Zeringue Engineer of the Year for 2006.

Ingram, who also won the 2001 Engineer of the Year award, has been on the ground floor of research-and-development projects with TVA, the Electric Power Research Institute, the Department of Energy, companies and universities.

"Much of the work EPRI is doing in the power-delivery business benefits what we're doing at TVA," says Ingram, senior manager, Transmission Technologies, in River System Operations & Environment's Research & Technology Applications. "Because we're a good partner with EPRI, TVA does a lot of demonstrations with them. We know our participation is valued."

His high-tech R&D work expands to DOE and universities such as Georgia Tech, Virginia Tech and Tennessee Tech.

Ingram's phasor-measurement work has developed commercial technology that led to new industry standards for phasor equipment, a technology that provides high-resolution, time-synchronized data. This equipment monitors the electric-transmission grid, improving the ability for real-time observation of the grid.

"If we can measure the angle between two points, we know the power flow," he says. "It works with global-positioning-system satellites and tells us about our use of the system in real-time."

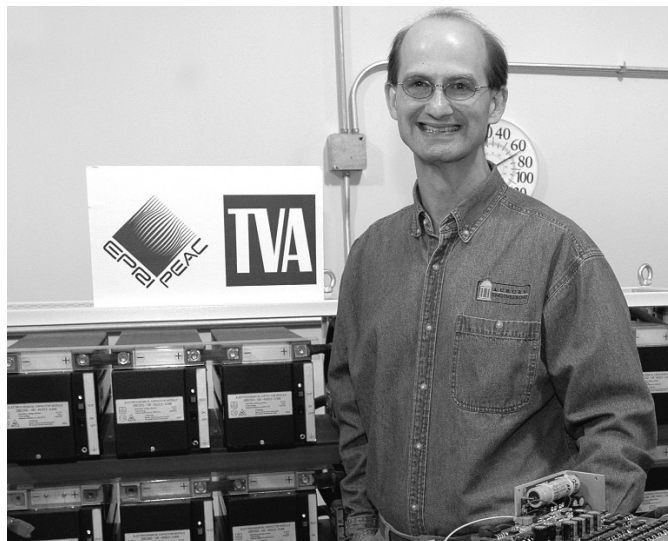
He says the project started with TVA, which is now managing it for DOE.

"We have five units on the TVA system. We're working with DOE to put 20 more on other utilities' systems."

Another of Ingram's successful, highly technical projects is with SuperVar, which stands for volt-amperes reactive. This technology will protect the transmission system from voltage fluctuations and provide reliable power to consumers.

Once again, Ingram was on the ground floor with that project.

"Transmission/Power Supply, which is now Power System Operations, was working with American Superconductor on another project," he says. "I was in a meeting where the SuperVar project was first discussed. I was



Ingram stands with the 2,000-volt, 1,000-kilowatt ultracapacitor energy-storage system. A patent is pending on this technology.

very involved with taking this idea and making it happen throughout the development, manufacturing and testing process.

"SuperVar was successfully tested at a substation serving the Hoeganaes Corp. in Gallatin, Tenn. Now TVA is buying two SuperVars to be used at Logan Aluminum, a directly served customer near Bowling Green, Ky. The advantage SuperVars have is that they act as 'shock absorbers,' smoothing out the load impact on the grid."

Ingram is responsible for a project at Paradise Fossil Plant that involves radio frequency identification, or RFID.

"Wal-Mart and other companies have used this technology to identify contents in shipping boxes," he says. "Tags are placed on the boxes. RFIDs have a transmitter receiver and a monitor to manage inventory by displaying what's in the boxes."

"We're expanding on this technology. At Paradise, conductive dust from the smokestack can cause outages in the switchyard. So we're putting RFID tags on switchyard equipment to measure temperatures, voltages and currents. These measurements will allow us to be strategic in where and when we need to clean the insulators. This will be a big help in preventing unplanned outages."

— NANCY CANN

RSO&E Environmental and Stewardship functions consolidated

River System Operations & Environment organizations Resource Stewardship and Environmental Policy & Planning have been consolidated into a new group called Environmental Stewardship & Policy.

Bridgette Ellis will head the new group as senior vice president.

Ellis has served as vice president of Resource Stewardship for five years and as acting vice president of EP&P for the past seven months. She has more than 25 years of experience in resource management with TVA.



Bridgette Ellis

The new organization will continue to support business units throughout TVA in the areas of environmental policy, environmental consultation, cultural and heritage consultation, realty services, land management, recreation, natural-resource management and water quality.

Most existing staff members in both organizations are being consolidated into the new group. In addition, Environmental Training and its employees are transferring to Employee Technical Training & Organizational Effectiveness in Human Resources.

people, plaudits and promotions

TVA Nuclear has selected six employees as Professionals of the Year for 2005 for exemplifying key values that help ensure



Milford Chambers



Sandra Jeffers

safe, reliable and efficient operation of the nuclear plants. The employees are **Milford Chambers** and **Sandra Jeffers** of Browns Ferry Nuclear Plant; **Roger Johnson** and **Tim Pappu** of Sequoyah Nuclear Plant; and **James Cross** and **Ronald Schouggins** of Watts Bar Nuclear Plant. Chambers, Johnson and Schouggins were named Nuclear Maintenance Professionals of the Year.

Chambers was recognized for the quality of his work



Roger Johnson



Tim Pappu

and his support of others in setting the standard for professionalism. Johnson was selected for the way he conducts hands-on training on the use of valves, emphasizing safety first with his students. Schouggins was recognized for his expertise on pumps used in the plant and his willingness to help fellow employees.

Cross, Jeffers and Pappu were named Radiation Protection, Chemistry & Environment Professionals of the Year. Cross was selected for having a questioning attitude that helps



James Cross



Ronald Schouggins

identify safer ways of performing activities. Jeffers is widely known as a team player who consistently goes beyond what is required, focusing on doing the right thing in all her jobs and her work with others. Pappu was selected for his focus on safety, equipment reliability and excellence in human performance, as well as his diligence in maintaining specialized lab instruments at Sequoyah.

2005 Ike Zeringue Engineer of the Year finalists

Steve Brothers, manager of Energy Legislation & Management in Administrative Services, has spent the majority of his 27 years at TVA overseeing the internal energy-management program, which guides TVA in meeting federal regulations on energy use. Because of his efforts, TVA has seen an 18- to 26-percent energy reduction in buildings and a 44- to 58-percent improvement in vehicle fuel efficiency, along with many other improvements.



Steve Brothers

Ken Brune, program manager in License Renewal, TVA Nuclear, has shown outstanding leadership and technical capability in managing the process for gaining an extension of the Nuclear Regulatory Commission operating license for Browns Ferry Nuclear Plant. Final approval of the 20-year extension is expected in May 2006. It will provide TVA with safe, reliable nuclear generation for two decades without significant capital investment for alternate generation capability.



Ken Brune

Tim Waters, principal engineer at Allen Fossil Plant, Fossil Power Group, led the site studies and modification efforts for the selective catalytic reduction systems that have reduced nitrogen-oxide emissions at Allen. The plant's emission targets have been surpassed every year since installation. Thanks in part to these efforts, Allen received the Environmental Excellence of the Year award in 2003. Waters also is considered a TVA and industry expert on turbine-generator-reliability improvement.



Tim Waters

Jennifer Weber, a specialist in Transmission System Reliability, Power System Operations, is known for her expertise in ensuring the reliability of nuclear switchyards, transformer yards and offsite power for nuclear stations. She ensures that system analyses support nuclear-site regulatory requirements. Weber played a leadership role on the Southeastern Electric Reliability Council's team responsible for enhancing the safety and reliability of nuclear-plant offsite power sources from the interconnected grid, thereby minimizing the possibility of unplanned plant outages.



Jennifer Weber

Understanding How TVA Works



Part 8 in TVA's Business Education Series



For Fuel Handling Supervisor **Harold Catlett**, Kingston Fossil Plant, there is more attention to the way coal inventory is reported.

What is this thing called 'Sarbanes-Oxley?'

Lots of changes are happening at TVA, and one of those is the way the company will disclose and report its finances. So you're not in a financial organization. Should you care?

EVERYONE should, because two recent legislative acts — the Consolidated Appropriations Act of 2005 and the Sarbanes-Oxley Act of 2002 — affect employees, power-distributor customers and many suppliers of TVA goods and services.

This section provides a simple explanation of what this means for TVA and you.



For **Robert Chadwick**, Information Technology projects manager, more documentation and change control procedures are on the horizon.



For **Jeff Price**, senior manager of Accounting & Performance Reporting, financial statements and reports have to be produced under tighter deadlines with documented processes to allow for additional audit scrutiny.

Harold Catlett, Robert Chadwick and Jeff Price are just three of the thousands of employees affected by the Sarbanes-Oxley Act, which was adopted because of a series of major corporate financial scandals, such as the problems at Enron, WorldCom and others. Most of these scandals involved the misrepresentation of corporate finances to the public.

Sarbanes-Oxley is the biggest change to federal securities laws since the 1930s and is intended to restore investor confidence by providing reasonable assurance that a company's financial statements are accurate and complete.

Beginning with its 2007 Annual Report, TVA must fully comply with all sections of Sarbanes-Oxley that apply to TVA. It's a

legal requirement, not an option.

And it makes good business sense. It helps ensure that TVA maintains a AAA bond rating as well as the confidence of key stakeholders including customers, investors, the public and Congress.

2007 seems like a long time away. Not so, says President & Chief Operating Officer Tom Kilgore.

"Work is going on in every organization right now," Kilgore says. "Even with the extra time we have, we're not letting up."

"Sarbanes-Oxley is not a bad regulatory requirement, and it's an opportunity to improve. Officers have to certify financial statements, but employees are essential to the overall success of Sarbanes-Oxley at TVA."

What do these changes mean to TVA?

The Consolidated Appropriations Act of 2005 requires TVA to file its quarterly, annual and current financial reports with the Securities & Exchange Commission. This brings the following facets to the financial reporting process:

- Required compliance with certain provisions of the Sarbanes-Oxley Act
- Tighter production schedules for financial statements and more attention to information sources
- More disclosures about TVA's financial and business operations
- Increased scrutiny by internal and external auditors
- Documentation and testing of internal controls over financial reporting
- Increased accountability of officers and managers for the accuracy of statements in the financial reports.

To comply with Sarbanes-Oxley, public companies, as well as TVA, need strong and well-controlled processes that generate reliable financial reports that comply with accounting rules.

That doesn't mean just the accounting processes the accountants follow to fill in the dollar amounts on the financial statements. Sarbanes-Oxley also is about processes and transactions that are the original source of financial-statement information.

In TVA's world, these processes include receiving coal shipments, calculating nuclear-fuel burn rates, purchasing power, metering electricity delivered to customers, and contracting with vendors and suppliers, as well as many others.

To be well-controlled, these processes must include steps for management approvals, accuracy checks, information verification, security of automated systems, and other activities that ensure the information that winds up in the financial statements is accurate, valid and complete. Without these controls, TVA can be exposed to financial risks such as accounting misstatements, loss of stakeholder confidence or even fraud.

To comply with Sarbanes-Oxley, TVA must document, test and report on the effectiveness of internal controls in each annual report beginning in fiscal year 2007. TVA has voluntarily disclosed significant control deficiencies in the annual and quarterly financial reports since the fiscal year 2004 TVA Annual Report.

TVA AND THE SEC

What is the Securities & Exchange Commission?

The mission of the U.S. Securities & Exchange Commission is to protect investors; maintain fair, orderly and efficient markets; and facilitate capital formation.

The SEC oversees the key participants in the securities world, including securities exchanges, securities brokers and dealers, investment advisers and mutual funds. The SEC is concerned primarily with promoting the disclosure of important market-related information, maintaining fair dealing and protecting against fraud. (Additional information about the SEC is available at www.sec.gov.)

TVA's quarterly and annual reports, which must be filed with the SEC beginning with the TVA Annual Report for FY 2006, include financial statements, as well as certain information about TVA's business and operations, such as discussions of TVA's financial condition and results of operation, and significant legal proceedings in which TVA is involved.

In addition, the quarterly and annual reports must include certifications by certain members of TVA management. As part of Sarbanes-Oxley compliance, the annual reports, beginning in fiscal year 2007, must include a report on the effectiveness of TVA's internal controls over financial reporting.

TVA, SEC and Sarbanes-Oxley timeline

▲ Key compliance targets

2002
Sarbanes-Oxley Act

Results in tighter accounting controls and additional disclosures for public companies that file reports with SEC.

2005
TVA prepares for Sarbanes-Oxley
TVA establishes project-management office, steering committee and work teams.

2005-2006
TVA documents financial processes and controls and performs limited-scope testing.

2001

2002

2003

2004

2005

2006

2001-2002
Wave of accounting scandals draws attention to accounting fraud.

2003
TVA Board approves Corporate Accountability & Disclosure Plan.
TVA voluntarily complies with certain provisions of Sarbanes-Oxley Act

2004
Consolidated Appropriations Act of 2005
TVA has to start filing annual, quarterly and current reports with the SEC beginning with FY 2006 annual report.

September 2006 Annual Report
TVA to file financial reports with SEC
TVA's annual report (10-K) will be filed with the SEC within 90 days of the end of the fiscal year and quarterly report (10-Q) within 45 days of end of quarter.

Who's working on Sarbanes-Oxley?

The Sarbanes-Oxley implementation project is sponsored by Tom Kilgore, president & chief operating officer; Mike Rescoe, chief financial officer; and John Long, executive vice president of Administrative Services.

TVA has formed a Sarbanes-Oxley steering committee to oversee the work in each organization. Vice President/Controller Randy Trusley leads the committee. The committee sets priorities and makes major decisions for the project; ensures linkages with other business initiatives; evaluates the magnitude of deficiencies in business-process controls to help establish priorities; and completes remediation of control weaknesses.

The following are members of the committee, which is advised by the Office of the Inspector General and TVA's external auditor:

- Diane Bunch, senior vice president, Information Services
- Paul LaPointe, senior vice president, Procurement
- Libby Nickle, senior manager, Human Resources
- Jacky Preslar, general manager, Fossil Fuel Supply

Documentation and testing: who's overseeing

Internal Testing

The Controller organization is responsible for working with process owners to establish the initial development of Sarbanes-Oxley documentation. Financial Controls & Process Analysis, the Sarbanes-Oxley project-management office, has identified key business processes and information systems that impact each line item affecting TVA's financial statements. FC&PA contacts key staff members in each business unit to document the business process and identify controls. The Office of Inspector General or FC&PA then creates audit plans to test the identified controls at least annually.

External Testing

TVA's external auditor is responsible for auditing and issuing an opinion on TVA's financial statements. With Sarbanes-Oxley, the external auditor will issue an opinion on the effectiveness of TVA's internal controls over financial reporting. This means they will examine all 82 business processes and 34 information systems that have been identified as essential to the accuracy and validity of the financial statements.

The Office of Inspector General is responsible for the technical-contract management for TVA's external audit and for ensuring the work of the external auditor complies with government auditing standards. OIG performs concurrent reviews of the external auditor's annual audit of TVA's financial statements and its reviews of TVA quarterly financial results.

What Sarbanes-Oxley means to organizations



Mike Rescoe, *chief financial officer*

Disclosure has been largely voluntary in the past for TVA. It made good business sense to keep the financial community informed with quality disclosure, which has led to very low funding costs. With Sarbanes-Oxley, we are offered the opportunity to do even better in the quality and timeliness of our data. Because we all must pull together and operate as one in preparing for this higher standard, a great benefit will be better data with which to manage the business and a quicker response time to external changes.



Diane Bunch, *senior vice president, Information Services*

Improved documentation of processes is a benefit. The implementation of change and configuration management controls will be fundamental to Sarbanes-Oxley compliance. The general information-technology controls around change management, access to data and security will affect just about every IS employee. We already have begun implementing some of these changes. Completing Sarbanes-Oxley remediation is a major IS performance objective for FY '06.



Jacky Preslar, *general manager, Fossil Fuel Supply*

Our focus used to be on what coal to buy and how to transport it at the lowest cost. With the Sarbanes-Oxley change, we'll have more discipline in documentation and in decision-making, as well as in our common approach to process and control. It's not a bad thing, just different. We are putting together a group to do self-audits to ensure we're following process controls.



Randy Trusley, *vice president/controller*

Sarbanes-Oxley is the way business will be done for TVA and for companies that deal with public financing. TVA will be required to have more formal processes — particularly in the financial-reporting area. Sarbanes-Oxley heavily impacts my organization. Fifty percent of my staff members are doing documentation and testing. These are not new processes. They've been done before. However, we are adding new controls, such as security and authorization approvals.



2007 thereafter

September 2007 Annual Report
Compliance with additional provisions of Sarbanes-Oxley
TVA's annual report will contain report on internal controls.

2007 and beyond
TVA updates documentation or processes, systems and controls as needed and tests controls annually.

Facts about Sarbanes-Oxley

- Named after Sen. Paul Sarbanes and Rep. Michael Oxley.
- Passed July 30, 2002, in response to major corporate and accounting scandals, which resulted in loss of public trust in corporate accounting and reporting practices.
- Contains 11 sections, ranging from Corporate Responsibility to Corporate and Criminal Fraud and Accountability.
- TVA will be required to comply with sections 302 and 906 — requiring officers to certify annual and quarterly reports — and section 404 — requiring TVA to report on the effectiveness of its internal controls over financial reporting.
- TVA is focusing Sarbanes-Oxley compliance on 82 processes and 34 information systems related to the reporting of financial information.

Sarbanes-Oxley was designed to do the following:

- Protect the investing public by providing reasonable assurance that a company's financial statements are accurate and complete.
- Increase oversight of the accounting profession.
- Lessen potential conflicts of interest with external auditors.
- Hold executives accountable for published financial information.
- Enhance internal controls over financial reporting.

Why Sarbanes-Oxley is good

Sarbanes-Oxley compliance will help make TVA a stronger company by doing the following:

- Help TVA identify gaps in its current financial controls.
- Reveal opportunities for process improvement by requiring documentation and analysis of how work is actually performed.
- Help TVA maintain its triple-A bond ratings.
- Ensure confidence from stakeholders, elected officials and investors.
- Facilitate knowledge transfer through documentation of employee roles and responsibilities.

What employees can do

From reporting time in eWorkplace to creating account codes in the Integrated Business System to billing of power-distributor customers, Sarbanes-Oxley applies to every business process that impacts TVA's financial statements.

The Sarbanes-Oxley project management office has identified 82 business processes and 34 information systems that impact TVA's financial statements. One or more of these processes or systems touch every organization and every employee throughout TVA.

Do you reconcile a Procurement card statement?

Then you are involved in financial-reporting when you categorize all purchases in the correct cost classification. Every purchase rolls up into a line item on TVA's financial statements.

Do you collect and analyze revenue-meter data or install and



maintain revenue meters?

Then you are involved in financial reporting. You ensure energy usage is recorded accurately and completely so TVA's sales and revenue data are correct.

Do you receive and inspect inventory items?

Then you help ensure that TVA receives quality products and only pays for what it receives.

Compliance with Sarbanes-Oxley aligns with several of TVA's Values. Integrity, Respect, Continuous

Improvement, Accountability — all these values are reflected in the intent and spirit of the Sarbanes-Oxley Act. According to President & Chief Operating Officer Tom Kilgore's philosophy, we should obey the rules — or work to change them.

"Some rules need to be changed, because some are not fair or correct," he says. "But if it's a matter of complying with environmental regulations or Sarbanes-Oxley regulations or paying a speeding ticket, we will follow the rules."

For more information

TVA has a Corporate Accountability & Disclosure Plan, or CADP, and has adopted a disclosure-control policy, a disclosure and financial-ethics code, and an information-certification policy. You can see these policies on the TVA Web site at www.tva.gov/finance/governance/index.htm.

All officers and employees who certify information contained in annual reports or quarterly reports and employees who have been identified as process owners are required to complete CADP training on the TVA Online Learning screen (under the Ethics section). The course describes the responsibilities and accountabilities of TVA officers and employees for disclosing and reporting information as required by the TVA CADP. While this course is not generally required, it is available to those interested in this area. The Chief Financial Officer organization Web site also includes a link to the TVA Online Learning site that accesses the training module.

In addition, a Sarbanes-Oxley Web site has resources for employees who

want more information. The site includes a Sarbanes-Oxley toolkit for managers that includes talking points, key messages, examples of process documentation and frequently asked questions, as well as a new Sarbanes-Oxley training module. On TVA's internal Web site, go to Sarbanes-Oxley.

Employees also can contact Harriet Miller, Sarbanes-Oxley project manager, at 865-632-6101.



This special section can be viewed on TVA's internal Web site. For more information about this topic, go to www.tva.com.